

<p align="center">2003-2004 ANNUAL REPORT</p>

ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds

The San José/Santa Clara Treatment Plant Operating Funds are used for the operation and maintenance of the sanitary sewer system and the regional Water Pollution Control Plant (WPCP). Funds included in this category are the San José/Santa Clara Treatment Plant Operating Fund, San José/Santa Clara Treatment Plant Income Fund, Sewage Treatment Plant Connection Fee Fund and the Sewer Service and Use Charge Fund.

***San José/Santa Clara
Treatment Plant
Operating Funds***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 145,395	\$ 139,308	\$ (6,087)	(4.2%)
<i>Expenditure</i>	168,134	161,601	\$ 6,533	3.9%
<i>Fund Balance (est. *)</i>	53,531 *	53,889	\$ 358	0.7%

Year-end revenues were below budgeted levels in two of the four funds included in this category, resulting in an overall negative revenue variance of \$6.1 million. A revenue shortfall in the San José-Santa Clara Treatment Plant Operating Fund (\$4.5 million) resulted from lower than budgeted contributions from tributary agencies. These contributions reimburse actual expenditures and a credit from prior year savings was applied in January 2004. Revenue in the Sewer Service and Use Charge Fund fell short of estimated levels (\$2.0 million) due to lower than budgeted sewer collections, primarily in the commercial and industrial sectors. Revenues in the Sewage Treatment Plant Connection Fee Fund ended the year above budgeted levels by \$349,000, primarily due to higher than anticipated connection fees and interest collections. In the San José/Santa Clara Treatment Plant Income Fund, revenues were \$21,000 above the budgeted levels largely due to higher than expected rental income.

Overall, year-end expenditure savings of \$6.5 million was generated, mainly resulting from savings in the San José/Santa Clara Treatment Plant Operating Fund (\$3.8 million) and in the Sewer Service and Use Charge Fund (\$2.8 million). The majority of savings in the San José/Santa Clara Treatment Plant Operating Fund appeared in the Environmental Services Department's appropriations (\$3.3 million). Of these savings, \$2.8 million was primarily due to non-personal/equipment savings related to the Water Efficiency Program and energy savings and \$492,000 was personal services savings due to vacancy savings. In addition, \$334,000 of savings

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ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds (Cont'd.)

in this fund was rebudgeted in the 2004-2005 Adopted Operating Budget for continuing water efficiency and watershed program activities. The majority of savings in the Sewer Service and Use Charge Fund can be attributed to savings in the Department of Transportation (\$1.6 million) primarily due to vacancy savings, major litigation costs (\$600,000), and sanitary sewer program savings in the Public Works Department (\$121,000).

The Public Works Personal Services appropriation in the Sewer Service and Use Charge Fund was over-expended at year-end and requires ratification due to the redistribution of Public Works costs during the year-end closing process. The reallocation of these costs was designed to more accurately distribute costs, and to respond to a prior finding from the City's outside auditor.

The actual year-end fund balance exceeded estimates by \$358,000. This was primarily the result of higher than anticipated fund balance in the Sewer Service and Use Charge Fund (\$1.3 million) due to higher than estimated revenues combined with expenditure savings described above. The fund balance in the San José/Santa Clara Treatment Plant Operating Fund (\$961,000) ended the year lower than estimated levels due to lower than anticipated contributions from tributary agencies as described above partially offset by program expenditure savings.